

Importance of a Business Plan

Writing a business plan is a critical part of creating any new business, especially if this is the first attempt the entrepreneur has made at starting a firm. Essentially, the well-written business plan is a roadmap, projecting what the company hopes to achieve and how it plans on meeting those objectives. The aim of this brief section on business plans is not to be a “how to” guide for those aspiring to write a business plan — there are a slew of Web sites and books dedicated to that subject — but rather to discuss the importance of creating a business plan.

Ideally, the business plan should be written before the lease is signed, the first employee is interviewed or the first dollar is made. Research and plan before the business gets going, because once the doors are open you will find your free time to do such things has become a rare commodity. A typical business plan can be anywhere from 20 to more than 60 pages in length, though succinctness is generally preferred to lengthy descriptions. If you can't condense your business idea into a reasonably sized document the idea is likely too loose and needs to be refined. Remember, the business plan is not meant to be an end-all be-all for the firm, but an outline which the business is modeled around. Business plans are etched in sand, not engraved in stone. So deviating slightly from the plan on occasion is normal and expected for a newly developing company. In fact, stubbornly sticking to the letter of a business plan, despite the surprises and unpredictability that naturally accompany the formation of a new company, is a dangerous fault that will lead to hardship. No matter how well written, no business plan can anticipate all the unforeseen elements that will undoubtedly arise when attempting to form a successful company.

At the same time, the business plan should not be so fluid as to be useless in mapping the company's future. The plan must strike a careful balance between flexibility and stability. As such, the business plan should be a living document that is constantly being reviewed and refined to more efficiently effect the direction of the company, while at the same time providing continuity of the broader goals of the firm.

But why bother writing a business plan at all? Perhaps the most important reason is to organize your thoughts. Having a million-dollar idea is useless if you cannot effectively communicate the idea to others and convince them it is viable. By writing a business plan, entrepreneurs are forced to contemplate all aspects of the business, including those which may have been given little or no thought at all. How will the company make a profit? What personnel will need to be brought on board? Who will the customers be? Where will funding come from? All of these questions and more need to be carefully addressed in the business plan. Producing clear solutions to these issues will not only help to create a viable business plan, but will also flesh out the business idea into a form where it can be more properly critiqued and analyzed. It is critical that all of the planning and research be completed before the business takes off.

Another important reason for crafting a business plan is its purposes in obtaining funding. As a small business owner, you will need to find someone to give you capital to get your

business up and running. Whether this money is loaned as debt from a bank, or received in exchange for equity from family and friends, you will need to convince someone that the business is going to be a success. Presenting these potential investors with a business plan discussing your plan for victory is one way to reassure them. In fact, most banks will not even consider lending to a small business if they aren't presented with a business plan. One exception to this is found in some cases of angel funding, particularly with tech start-ups. It may be the case for a tech start-up that a business plan is not required by the angel investors, but that only an executive summary is necessary. This however is the exception, not the rule, and is the result of the rapidly changing nature of some sectors of the tech industry.

Crafting a business plan may take a few days or weeks of your time, but a well written business plan will be a useful tool in organizing your thoughts, acquiring funding and convincing others that you can take a fledgling idea and turn it into a viable enterprise.

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